

Message Text

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ORIGIN EB-07

INFO OCT-01 NEA-09 ISO-00 AGR-05 AID-05 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 L-02 EUR-12 /064 R

DRAFTED BY EB/OF/FFD:RESERVICE:JO:USDA:RSHEGOGUE

APPROVED BY EB:JLKATZ, ACTING

NEA - BLAINGEN

USDA - RBELL

AID - AMERKER

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FM SECSTATE WASHDC

TO AMEMBASSY NEW DELHI PRIORITY

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E.O. 11652: N/A

TAGS: ETRD, EAGR, IN

SUBJECT: PL-480 NEGOTIATIONS

REF : (A) NEW DELHI 16850 (B) NEW DELHI 17015

(C) NEW DELHI 17171 (D) STATE 276526

1. FOURTH NEGOTIATING SESSION HELD DEC 30 WITH
RAMAKRISHNA CONTINUING AS GOI SPOKESMAN. MOST TIME
SPENT ON (A) GOI DESIRE EXPLICITLY LIMIT REPAYMENT
TO DOLLARS AND (B) U.S. INSISTENCE ON ASSURANCES GOI
WILL NOT MAKE OR FINANCE WHEAT SHIPMENTS IN REPAYMENT
USSR WHEAT LOAN AS LONG AS RECEIVING OR UTILIZING
(DIRECT EXPORTS) PL-480 TITLE I WHEAT. WE CONTINUE
TO EXPLORE FIRST ISSUE. SECOND ISSUE IS PRINCIPAL
SUBJECT THIS CABLE. ON OTHER ISSUES (SELF-HELP
REPORTING, FAIR SHARE PROVISION, SALES PROCEEDS, FINAL
PROVISIONS COVERING TERMINATION) WE WENT OVER FAMILIAR
GROUND AND ARE HOPEFUL LANGUAGE CAN BE WORKED OUT,
IN TEXT OR AGREED MINUTES, THAT WILL TAKE CARE OF GOI
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CONCERNS, WHICH LARGELY OPTICAL AND RELATED TO GOI'S
EXPLAINING AGREEMENT TO PARLIAMENT. ANY MANDATORY
PROVISION, OBVIOUSLY, CANNOT BE DILUTED.

2. RUSSIAN LOAN REPAYMENT ASSUMED MAJOR ISSUE
STATUS AT DEC 30 MEETING WHEN IT BECAME APPARENT
RAMAKRISHNA HAD NOT FULLY UNDERSTOOD FROM PREVIOUS
DISCUSSIONS U.S. CONCERN THIS REGARD. AT 3RD NEGOTIATING

SESSION U.S. HAD PROPOSED LANGUAGE IN AGREED MINUTES
THAT WHILE U.S. RECOGNIZES GOI HAD EXPORT COMMITMENTS
PRIOR SIGNING PL-480 AGREEMENT, GOI AGREES NOT TO MAKE
FOODGRAIN SHIPMENTS DURING PERIOD PL-480 WHEAT BEING
IMPORTED OR UTILIZED. IN ADDITION TO DIRECT EXPORTS
FROM INDIA, WHICH LANGUAGE OF PL-480 AGREEMENTS
EXPLICITLY PROHIBITS, THIS STATEMENT WOULD ALSO
PRECLUDE GOI PURCHASES OF WHEAT IN THIRD COUNTRIES
FOR SHIPMENT TO USSR. WHEN THIS MADE CLEAR TO RAMAKRISHNA
HE PROFESSED GREAT SURPRISE AND STATED HIS VIEW THAT
ANY SUCH COMMITMENT ON PART GOI COMPLETELY UNACCEPTABLE
AND THAT U.S. INSISTENCE THIS POINT MIGHT WELL
PRECLUDE PL-480 AGREEMENT. HE HAD COME TO DEC 30
MEETING WITH PROPOSAL TO LEAVE EXPORT PROHIBITION
IN PL-480 AGREEMENT TEXT UNCHANGED BUT TO INCLUDE
STATEMENT IN MINUTES THAT PROHIBITION NOT APPLICABLE
TO OBLIGATIONS OF GOI ENTERED INTO PRIOR TO AGREEMENT.

3. IN ASSESSING PROBLEM OF WHEAT REPAYMENTS, TWO
FACTORS STAND OUT: (A) TIGHT SUPPLY SITUATION FOR
WHEAT WORLDWIDE AND (B) USG ACTIONS ATTEMPTING TO
ENSURE THAT AT LEAST MINIMUM CURRENT CONSUMPTION
NEEDS OF IMPORTERS ARE MET. IN LIGHT OF THESE
FACTORS, DIVERSION WHEAT FROM ANY SOURCE BY GOI TO
USSR, PARTICULARLY WHILE RECEIVING PL-480 WHEAT
WOULD RAISE SERIOUS QUESTIONS ABOUT VALIDITY OF
INDIAN REQUIREMENTS FOR U.S. GRAIN AND WOULD PROMPT
STRONG DOMESTIC REACTION TO U.S. EFFORTS RESPOND TO
INDIA'S FOOD NEEDS.

4. SINCE ANNOUNCED RENEWAL TITLE I PL-480 ASSISTANCE
TO INDIA, THERE HAS BEEN CONSIDERABLE FLOW CONGRESSIONAL
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AND PUBLIC OPPOSITION TO THIS ACTION. CRITICS CITE
INDIA'S RECEIPT LARGE PL-480 ASSISTANCE IN PAST
CULMINATING IN 2 BILLION DOLLAR RUPPE "GIVEAWAY",
MONEY BEING SPENT BY INDIA ON ATOMIC "BOMBS" AND FACT
AMERICANS FACED WITH FOOD SHORTAGES AND HIGH
(VS LOW PL-480) INTEREST RATES. FOR VARIETY OF
REASONS PL-480 PROGRAM IN GENERAL NO LONGER ENJOYS
DEGREE SUPPORT IS ONCE HAD. INDIA PROGRAM HAS
CONSIDERABLE POTENTIAL FOR FURTHER ERODING SUPPORT, TO
DETRIMENT OTHER COUNTRIES AS WELL AS INDIA.

5. IN PRESENT TIGHT SUPPLY SITUATION, U.S. IS CLOSELY

MONITORING ALL GRAIN SHIPMENTS UNDER VOLUNTARY EXPORT SURVEILLANCE PROGRAM WHICH PROVIDES FOR PRIOR USG CLEARANCE OF ALL GRAIN EXPORT CONTRACTS FOR 50,000 TONS OR MORE. INDIA'S COMMERCIAL PURCHASES OF WHEAT TO

DATE PLUS PROBABLE ALLOCATIONS UNDER PL-480 (TITLE I AND II) WOULD EXCEED 4 MILLION TONS USDA ESTIMATED EARLIER INDIA WOULD IMPORT FROM U.S. IN THIS CROP YEAR. LIKELIHOOD OF SIGNIFICANT ADDITIONAL PURCHASE IS UNCLEAR, BUT BECAUSE INDIA'S PURCHASING POTENTIAL IS LARGE, ITS ACTIONS IN GRAIN MARKET ARE RECEIVING ESPECIALLY CAREFUL ATTENTION BY USDA.

6. ESSENTIAL PROBLEM IS THAT U.S. CANNOT APPEAR TO BE FINANCING INDIAN REPAYMENT OF SOVIET WHEAT LOAN THROUGH CONCESSIONAL SALES WHILE PRESENT VERY TIGHT SUPPLY SITUATION PREVAILS. THERE ARE TWO ELEMENTS IN U.S. POSITION: 1) WE ARE NOT WILLING TO MAKE SPECIAL EXCEPTION FOR INDIA THAT WOULD PERMIT EXPORT OF ITS OWN GRAIN (WHEAT OR WHEAT PRODUCTS) DURING PERIOD PL-480 IMPORTS BEING SHIPPED OR UTILIZED; AS RAMAKRISHNA AWARE THIS WOULD MEAN, IF SHIPMENTS OR UTILIZATION EXTEND BEYOND JUNE 30 (OR IF GOI ENTERS INTO NEW PL-480 AGREEMENT FOR FY-76) THAT PROHIBITION WOULD APPLY TO NEXT FISCAL YEAR AS WELL AS CURRENT. 2) WE REQUIRE ASSURANCE THAT, AT LEAST AS LONG AS PL-480 WHEAT SHIPMENTS BEING RECEIVED, GOI WILL NOT PURCHASE WHEAT IN THIRD COUNTRIES FOR SHIPMENT TO USSR.

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7. LATTER POINT IS NOT COVERED IN STANDARD PL-480 LANGUAGE. INDEED, IT IS ESSENTIALLY UNPRECEDENTED. RAMAKRISHNA ASKED HOW FAR U.S. PROPOSES EXTEND THIS CONCEPT--I.E. WOULD IT PROHIBIT CASH PAYMENT TO SOVIETS WHICH THEN USED TO PURCHASE GRAIN IN THIRD COUNTRIES. WE ANSWERED IN NEGATIVE, ALTHOUGH CLEARLY WE WOULD HOPE GOI COULD TAKE STEPS AVOID EVEN THIS MANNER REPAYMENT IN NEAR-TERM. BASICALLY, WE ARE CONCERNED AVOID DIRECT OR SEMI-DIRECT LINK BETWEEN U.S. ASSISTANCE AND LOAN REPAYMENT, AND IN OUR VIEW THIS RULES OUT ANY REPAYMENT IN KIND AS LONG AS PL-480 WHEAT BEING RECEIVED.

8. THIS ISSUE, AS CONCERNS PL-480 NEGOTIATIONS, BOILS DOWN TO FOLLOWING. WE MUST RETAIN EXPORT PROHIBITION LANGUAGE IN PL-480 AGREEMENT--APPLICABLE TO WHEAT/WHEAT PRODUCT EXPORTS FROM INDIA. WE CANNOT ACCEPT GOI PROPOSAL FOR LANGUAGE IN AGREED MINUTES EXCLUDING COMMITMENTS ENTERED INTO PRIOR TO AGREEMENT. IN ADDITION, WE MUST HAVE ASSURANCE THAT INDIA WILL NOT PURCHASE WHEAT IN THIRD COUNTRIES FOR SHIPMENT TO

USSR WHILE RECEIVING PL-480 WHEAT. STATEMENT TO THIS EFFECT IN AGREED MINUTES WAS AND IS ACCEPTABLE TO US. SIDE LETTER WOULD BE ALMOST EQUALLY SATISFACTORY.

GOI MAY COUNTER WITH OFFER TO GIVE UNEQUIVOCAL ORAL ASSURANCE THAT INDIA WILL NOT MAKE SUCH INDIRECT SHIPMENTS. EMBASSY SHOULD PRESS FOR WRITTEN ASSURANCE.

9. WE DO NOT SEE THAT THIS RAISES INSUPERABLE PROBLEMS. OUR UNDERSTANDING USSR LOAN AGREEMENT IS THAT FIRST REPAYMENT NOT DUE UNTIL SECOND HALF CY-75 IN ANY EVENT. WHILE LIMITATION ON EXPORTS FROM INDIA MAY WELL CONTINUE THROUGH NEXT FISCAL YEAR (BECAUSE OF COMPLETION CURRENT AGREEMENT, INCLUDING UTILIZATION, OR NEW AGREEMENT) WE REQUIRE GOI NOT RESORT TO THIRD COUNTRY PURCHASE FOR REPAYMENTS ONLY AS LONG AS PL-480 TITLE I WHEAT SHIPMENTS BEING RECEIVED. THIS, OF COURSE, COULD ALSO EXTEND INTO FY-76.

10. ACTION REQUESTED: WE WILL FULLY EXPLAIN U.S. POSITION TO RAMAKRISHNA. EMBASSY IS REQUESTED LIMITED OFFICIAL USE
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DISCUSS MATTER AT EARLIEST OPPORTUNITY AT HIGHEST APPROPRIATE LEVEL EXPLAINING U.S. POSITION ON REPAYMENTS ISSUE AND ACCEPTABILITY EITHER SUITABLE STATEMENT IN AGREED MINUTES OR SIDE LETTER COVERING INDIRECT SHIPMENTS. IF GOI SUGGESTS ORAL ASSURANCE, EMBASSY SHOULD INFORM GOI THAT IT WILL HAVE TO SEEK WASHINGTON OPINION. WE BELIEVE IT IMPORTANT, INTER ALIA, YOUR DISCUSSIONS BRING OUT EXACT NATURE GOI REPAYMENT COMMITMENT--I.E. TIMING, AMOUNTS AND POSSIBLE SUBSTITUTE COMMODITIES.

11. ON OTHER POINTS RAISED REF C, SOME OF WHICH RELATE TO LOAN REPAYMENT ISSUE, WE DO NOT WANT TO SEE GOI LEFT WITH IMPRESSION THAT PL-480 RESTRICTIONS AND REQUIREMENTS ARE MERELY BUREAUCRATIC STRINGS. PL-480 PROCEDURES HAVE EVOLVED OVER TWENTY YEARS TO MEET DEMANDS VARIOUS CONSTITUENCIES AND PURPOSES PROGRAM. THE PL-480 REQUIREMENTS UNDER THE PROPOSED AGREEMENT WITH GOI HAVE CHANGED LITTLE FROM THOSE IN AGREEMENTS CONCLUDED WITH INDIA DURING LATE 1960S. WE CAN MAKE EXCEPTIONS TO SOME PROCEDURES WHEN THIS CLEARLY IN U.S. INTEREST. MORE FREQUENTLY IT HAS BEEN IN RESPONSE STRONG ECONOMIC/HUMANITARIAN CASE OF RECIPIENT OR OTHER NEEDY COUNTRY. THUS IT WOULD BE POSSIBLE UNDER PL-480 AGREEMENT LANGUAGE FOR INDIA TO SHIP WHEAT TO, E.G. BANGLADESH, WITH PRIOR U.S. APPROVAL. WE WOULD CONSIDER ANY SUCH REQUEST ON ITS MERITS. IN THIS REGARD, RAM SHOULD BE AWARE THAT ALL

OTHER MAJOR FOOD DONORS (USSR PERHAPS EXCEPTED) MAKE
SIMILAR EXPORT PROHIBITIONS IN PROVIDING FOOD AID.
FOR EXAMPLE, CANADIAN WHEAT DONATION OF 140,000 METRIC
TONS, SUPPLY PERIOD AUGUST 1974 TO JUNE 1975, MADE WITH
PROVISO THERE WOULD BE NO WHEAT/WHEAT FLOUR EXPORTS
DURING 12 MONTH PERIOD. THE TITLE I AGREEMENT WITH
PAKISTAN SIGNED IN NOVEMBER 1973 WAS THE FIRST THAT
PROVIDED SORGHUM. BECAUSE OF THIS, SIGNING WAS HELD
UP AT GOP REQUEST SO THAT CERTAIN BARLEY SHIPMENTS
(A LIKE COMMODITY) COULD BE COMPLETED. WHEN PAKISTAN
CONTINUED TO EXPORT BARLEY AFTER THE SIGNATURE IT WAS
NECESSARY TO ABROGATE THE AGREEMENT AND CONVERT TO A
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CASH SALE (4.6 MILLION DOLLARS). SALES AGREEMENTS WITH
THE GOI IN PAST (MOST RECENT IN 1971) HAVE PERMITTED
INDIA TO CONTINUE PEANUT OIL EXPORTS WHILE RECEIVING
SOYBEAN OIL UNDER PL-480 BY MAKING ADDITIONAL
OFFSETTING COMMERCIAL IMPORTS. AGAIN, THIS WAS
SPECIAL EXCEPTION TO ASSIST RECIPIENT ECONOMY. SUCH
PROCEDURE, I.E. AN INCREASE IN INDIA'S WHEAT UMR, WOULD
BE MEANINGLESS IN PRESENT SITUATION BECAUSE IMPORTS
ALREADY FAR EXCEED NOMINAL UMR. BROWN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGRICULTURAL AGREEMENTS, NEGOTIATIONS, PL 480, WHEAT
Control Number: n/a
Copy: SINGLE
Draft Date: 01 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE000172
Document Source: ADS
Document Unique ID: 00
Drafter: EB/OFP/FFD:RESERVICE:JO:USDA:RSHEGOGUE
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: D750001-1034
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750189/baaaaglu.tel
Line Count: 246
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 29 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29 APR 2003 by GarlanWA>; APPROVED <01 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> gwr 971002
Subject: n/a
TAGS: EAGR, ETRD, IN
To: NEW DELHI
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006